

HUD FY 2013 Agency Financial Report
Section 3

Summary Of Financial Statement Audit And Management Assurances

For FY 2013, four material weaknesses were identified by the Office of Inspector General. Table one provides a summary of financial audit findings with regard to audit opinion. The first table is a summary of the results of the independent audit of HUD's consolidated financial statements, as well as information reported by HUD's auditors in connection with the FY 2013 Financial Statement Audit. Table two is a summary of HUD's FMFIA management assurances.

Table 1:

Audit Opinion	Qualified **				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Substantial Compliance with Federal Financial Management Improvement Act (FFMIA)	1	0	0	0	1
Utilization of FIFO Method	0	1	0	0	1
Presentation of Balance Sheet Accounts	0	1	0	0	1
PIH Cash Management	0	1	0	0	1
<i>Total Material Weaknesses</i>	1	3	0	0	4

** Contingent upon the final decision from OIG

Other Information

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Table 2

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Utilization of FIFO Method	0	1	0	0	0	1
Presentation of Balance Sheet Accounts	0	1	0	0	0	1
PIH Cash Management	0	1	0	0	0	1
<i>Total Material Weaknesses</i>	0	3	0	0	0	3
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Human Capital Operations	1	0	0	0	0	1
<i>Total Material Weaknesses</i>	1	0	0	0	0	1
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform except for the below non-conformances					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Management Systems - FFMIA Non-Compliance	1	0	0	0	0	1
FISMA Non-Compliance	0	1	0	0	0	1
<i>Total Material Weaknesses</i>	1	1	0	0	0	2
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FIRMS	1	0	0	0	0	1
HPS	1	0	0	0	0	1
SPS	1	0	0	0	0	1
IDIS	1	0	0	0	0	1

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HIAMS	1	0	1	0	0	0
GFAS	0	1	0	0	0	1
<i>Total non-conformances</i>	5	1	1	0	0	5
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
1. System Requirements	Noncompliance noted			Noncompliance noted		
2. Accounting Standards	Noncompliance noted			Noncompliance noted		
3. USSGL at Transaction Level	No noncompliance noted			Noncompliance noted		

Material Weakness	Status at End of FY 2013	Expected Resolution Date
Departmental Financial Management Systems	Open	September 2015
Strategic Management of Human Capital Operations	Open	September 2014
FIFO Method	New	June 2015
Presentation of Balance Sheet Accounts	New	September 2014
PIH Cash Management	New	September 2014
FISMA Non-Compliance	New	TBD

Significant Deficiency	Status at End of FY 2013	Expected Resolution Date
PHA Monitoring	Open	April 2014
Controls over HUD's Computing Environment	Open	September 2014
Obligation Balances	Open	December 2013
Resource Management	Open	March 2014

Other Information

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Controls Over Rental Housing Assistance	Open	October 2014
Controls over Community Planning and Development (CPD) Grantees	Closed	N/A
Administrative Control of Funds	Open	September 2014
Payroll Reconciliation	Open	Ongoing
Internal Controls over Financial Reporting	Open	December 2014
Financial Management Governance	New	TBD
Accounting Accrual for Grants	New	September 2014
Non-Compliance with Laws and Regulations	Status at End of FY 2013	Expected Resolution Date
Federal Financial Management Improvement Act (FFMIA)	Open	September 2015
Anti-Deficiency Act	Open	March 2014
FHA's Mutual Mortgage Insurance Fund Capitalization National Affordable Housing Act of 1990	Open	Ongoing
FISMA Non-Compliance	New	TBD
HOME Statute	New	TBD

** Reported as a Material Weakness in accordance with FISMA reporting requirements

Departmental Financial Management Systems	Achieving substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) continued to challenge HUD
FY 2013 Accomplishments	<input type="checkbox"/> Resolved all past records associated with reconciliation issues between HUDCAPS and HIAMS. <input type="checkbox"/> Established procedures to perform periodic reviews to ensure obligation balances between HIAMS and HUD's financial system of record remain in sync. <input type="checkbox"/> Held monthly meetings to provide status updates on processing acquisition transactions. <input type="checkbox"/> Submitted a draft plan to change the accounting method being used in

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	IDIS.
FY 2014 Planned Actions	<input type="checkbox"/> Ensure new HIAMS discrepancies are resolved timely. <input type="checkbox"/> Continue monthly status updates meetings. <input type="checkbox"/> Modify IDIS online to eliminate the FIFO issue. <input type="checkbox"/> Prepare for implementation of “New Core” Financial Management system in FY 2015.
Strategic Management of Human Capital Operations	Deficiencies exist with HUD’s Human Capital Management Environment
FY 2013 Accomplishments	<input type="checkbox"/> Established a new process to ensure submission of timely and comprehensive hiring plans. <input type="checkbox"/> Initiated Quality Control review procedures to ensure correct coding of SF-50 Personnel Actions. <input type="checkbox"/> Created “Workforce Planning Committee”. <input type="checkbox"/> Established the Human Capital Strategy Working Group.
FY 2014 Planned Actions	<input type="checkbox"/> Continuous improvement in human resource practices with regular revisions to the Quality Review process <input type="checkbox"/> Finalize HUD’s Human Capital Strategic and Workforce plans. <input type="checkbox"/> Continue to develop comprehensive staffing plans by each program office. <input type="checkbox"/> Implement an ongoing workforce planning process.
FIFO Method	Use of FIFO caused IDIS to be noncompliant with FFMIA
FY 2013 Accomplishments	<input type="checkbox"/> Analyzed FIFO accounting principles in accordance with internal controls and system requirements. <input type="checkbox"/> Completed analysis of IDIS assignments and disbursing budget fiscal year funding sources in accordance with Federal financial accounting standards. <input type="checkbox"/> Obtained opinion from GAO. <input type="checkbox"/> Developed a draft plan to eliminate FIFO with IDIS. <input type="checkbox"/> Implemented DRGR corrective actions to increase internal controls.
FY 2014 Planned Actions	<input type="checkbox"/> Re-engineer IDIS from FIFO to Grant-Specific Commitments - Disbursement System. <input type="checkbox"/> Amend monitoring handbook exhibit referencing voucher revision reports and instructions for Grantees and field office staff.
Presentation of Balance Sheet Accounts	Weaknesses identified in HUD’s financial statement consolidation, preparation and reporting related to Ginnie Mae
FY 2013 Accomplishments	<input type="checkbox"/> Restated the Agency FY 2012 Financial Statements.
FY 2014 Planned Actions	<input type="checkbox"/> Develop a Budgetary Accounting system. <input type="checkbox"/> Ongoing monitoring and reporting.
PIH Cash Management	PIH’s Housing Choice Voucher Program Cash Management process departed from GAAP and Treasury requirements

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FY 2013 Accomplishments	<input type="checkbox"/> Drafted procedures to identify agencies unable to account for cash matching Net Restricted Assets (NRA) balances and established repayment agreements. <input type="checkbox"/> Recorded transactions properly in the Agency's general ledger.
FY 2014 Planned Actions	<input type="checkbox"/> Establish procedures for recording activity in HUD accounting records. <input type="checkbox"/> Provide data for recording activity when procedures are established. <input type="checkbox"/> Continue implementation of Cash Management policies.
FISMA Non-Compliance	HUD did not comply with the Federal Information Security Management Act (FISMA)
FY 2013 Accomplishments	<input type="checkbox"/> Updated Security policies and procedures to ensure compliance with NIST-800-53 Rev 3 guidance. <input type="checkbox"/> Developed a comprehensive enterprise-wide Cyber Security Continuous Monitoring Strategy program. <input type="checkbox"/> Implemented a configuration management baseline. <input type="checkbox"/> Refined the capital planning and investment control process to comply with Federal guidelines.
FY 2014 Planned Actions	<input type="checkbox"/> Update current policies and procedures to ensure compliance with NIST-800-53 Rev 4 guidance. <input type="checkbox"/> Ensure security plans and Certification and Accreditation plans are updated in accordance with NIST guidance. <input type="checkbox"/> Strengthen security awareness and training program and activities, as well as security assessments.
PHA Monitoring	HUD management must continue to improve oversight and monitoring of subsidy calculations, intermediate performance and utilization of Housing Choice Voucher Funds
FY 2013 Accomplishments	<input type="checkbox"/> Continued utilization of the Portfolio Management and National Risk Assessment Tool. <input type="checkbox"/> Requested offset reallocation authority from Congress. <input type="checkbox"/> Tracked the recovery implementation by Field Offices and network teams for the troubled and substandard portfolio. <input type="checkbox"/> Developed NGMS which included a Portfolio Management tool and Risk Monitoring tool (PRMT) <input type="checkbox"/> Obtained approval from OMB on the revised reporting requirements.
FY 2014 Planned Actions	<input type="checkbox"/> Ongoing monitoring. <input type="checkbox"/> Implement utilization of PRMT and standardized protocols to ensure effective oversight and evaluation of performance goals, monitoring, and oversight of PHAs. <input type="checkbox"/> Develop methodology to evaluate performance of Moving to Work (MTW) agencies. <input type="checkbox"/> Revise Annual MTW plan and reporting requirements. <input type="checkbox"/> Make 100% threshold reports available to MFH with April 2014 EIV release. <input type="checkbox"/> Review recommendation with OMB for approval to add as a supplemental measure.
Controls over HUD's Computing Environment	Controls over HUD's computing environment can be further strengthened to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation.

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<p>FY 2013 Accomplishments</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Implemented a grid card solution as a two-factor authentication process for remote access. <input type="checkbox"/> Disabled IBM and UNIX accounts after 90 days of inactivity. <input type="checkbox"/> Enforced password complexity to IBM application owners. <input type="checkbox"/> Reviewed user access ensuring proper level of access based on job function. <input type="checkbox"/> Updated policies and procedures to include proper management of local user accounts. <input type="checkbox"/> Strengthened policies and procedures for secure transportation of information media outside of controlled areas. <input type="checkbox"/> Developed the Office of Housing IT portfolio management structure collaboratively with Office of the Chief Information Officer. <input type="checkbox"/> Designated a representative to oversee and report on the remediation of control deficiencies in general support systems that affect Housing systems and data. <input type="checkbox"/> Determined the role of Housing's Office of Risk Management in IT risk assessments for FHA applications. <input type="checkbox"/> Updated Housing's IT Risk Management framework. <input type="checkbox"/> Upgraded the Oracle environment. <input type="checkbox"/> Employed the use of Change and Configuration Management Suite that includes software tracking, version controls, auto-detection of new software, software deployment, discovery, Baseline Configuration, acquisition tracking and auditing.
<p>FY 2014 Planned Actions</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Maintain a repository of information for users requiring remote access and incorporate into the identity access management system. <input type="checkbox"/> Ensure potentially introduced vulnerabilities by mobile devices to IT infrastructure are adequately addressed. <input type="checkbox"/> For all mobile devices require encryption, content protection, password complexity protection and other security features that comply with HUD policy. <input type="checkbox"/> Develop and publish an official mobile device management standard operating procedure policy. <input type="checkbox"/> Assign a senior OCIO manager to document plan of action and provide regular status reports. <input type="checkbox"/> Address the IA and SI environments identified in NIST SP 800-53, Rev 3 and the SP 800-63. <input type="checkbox"/> Complete recertification process for all systems. <input type="checkbox"/> Review all Risk Assessments, Contingency Plans, POAMs, Security Assessment Report, E-Risk Assessments, and Privacy Impact Analysis for accuracy.
<p><i>Obligation Balances</i></p>	<p>HUD needs to improve controls over the monitoring of obligated balances to determine whether they remain needed and legally valid as of the end of the fiscal year.</p>
<p>FY 2013 Accomplishments</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Implemented a policy that all open obligations be reviewed annually regardless of the established monetary threshold. <input type="checkbox"/> De-obligated 115 out of 310 transactions deemed invalid. <input type="checkbox"/> Obtained documentation to retain or de-obligate the identified balances. <input type="checkbox"/> De-obligated PIH transactions deemed not valid and transactions closed. <input type="checkbox"/> Established a Closeout Taskforce to assist the field in closing out grants and resolve outstanding audit findings. <input type="checkbox"/> Reduced the balance of unliquidated obligations from \$50.6M to \$34.4M through review of grant agreements that have not been granted extension.

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	<input type="checkbox"/> De-obligated 17 inactive obligations totaling \$8276.67. <input type="checkbox"/> Identified and de-obligated all OHHLHC unliquidated obligations. <input type="checkbox"/> Recaptured \$102,430 for Housing's Section 202 and 811 programs combined. <input type="checkbox"/> Implemented procedures to provide LOCCS, HPS, SPS and HUDCAPS financial screenshots to assist Housing Program Offices in preparing closeout documentation. <input type="checkbox"/> Reviewed the identified 75 obligations totaling \$52,078 and de-obligated all un-liquidated obligations not needed and legally valid.
FY 2014 Planned Actions	<input type="checkbox"/> Prepare written guidance reminding Headquarters managers and Field Office Directors the criteria for reviewing the validity of open obligations; and update guidance approved to start the open obligation review. <input type="checkbox"/> Develop standard closeout policies and procedures to expedite the grant closeout process. <input type="checkbox"/> Coordinate Housing's re-capture of remaining outstanding Sections 202 and 811 debts and others.
Resource Management	HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.
FY 2013 Accomplishments	<input type="checkbox"/> Analyzed the effectiveness of current resource allocation methods for determining workload and human capital requirements. <input type="checkbox"/> Identified Workforce and Human Capital plan challenges and needs. <input type="checkbox"/> Addressed the short-and long-term needs of the Department. <input type="checkbox"/> Established a process to ensure submission of comprehensive hiring plans.
FY 2014 Planned Actions	<input type="checkbox"/> Develop a baseline staffing structure by program office. <input type="checkbox"/> Reallocate staffing as needed for increased workloads. <input type="checkbox"/> Implement strict guidelines with greater accountability for managing staff years to budget. <input type="checkbox"/> Empower managers to engage with HR specialists during the hiring process. <input type="checkbox"/> Prioritize efforts and facilitate transformation in planning programs and services.
Controls over Rental Housing Assistance	Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.
FY 2013 Accomplishments	<input type="checkbox"/> Conducted quality control inspections of 1,000 recently completed Housing Quality Standards (HQS) inspections at 22 of the nation's largest PHAs. <input type="checkbox"/> Conducted 40 on-site and 159 remote financial reviews which identified material reporting and recording weaknesses. <input type="checkbox"/> Conducted 28 on-site and 113 remote Voucher Management System (VMS) reviews identifying errors. <input type="checkbox"/> Triaged 282 PHAs preventing HCV terminations.
FY 2014 Planned Actions	<input type="checkbox"/> Conduct quality control inspections of HQS at the 100 largest PHAs.
Controls over Community Planning and Development (CPD) Grantees	CPD needs to improve its oversight of grantees

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FY 2013 Accomplishments	<input type="checkbox"/> Re-issued HUD A-133 Single Audit Act guidance establishing a tracking and reporting mechanism for monitoring and reporting follow-up results. <input type="checkbox"/> Developed a template for testing field office compliance with A-133. <input type="checkbox"/> Issued HUD guidance and notices regarding risk analyses and monitoring for grant programs.
FY 2014 Planned Actions	<input type="checkbox"/> Perform periodic compliance reviews.
Administrative Control of Funds	HUD needs to improve its administrative control of funds
FY 2013 Accomplishments	<input type="checkbox"/> Initiated an effort to update all 56 PIH funds control plans. <input type="checkbox"/> Updated funds control plans for approval. <input type="checkbox"/> Initiated a portfolio management concept whereby analysts re responsible for all aspects of their portfolios including completing required revisions and respective funds control plans. <input type="checkbox"/> Completed training on the administrative control of funds for the staff in the Office of Native American Program Grants Management and Grants Evaluation Divisions. <input type="checkbox"/> Updated funds control plans that had missing codes.
FY 2014 Planned Actions	<input type="checkbox"/> Annually review Funds Control plans to ensure proper codes are used. <input type="checkbox"/> Continue efforts to familiarize staff involved in the processing of actions for commitment, obligation, or expenditure of HUD funds with the content of funds control plans and Handbook 1830.2 Rev. 5.
Payroll Reconciliation	HUD needs to strengthen controls in the payroll process
FY 2013 Accomplishments	<input type="checkbox"/> Held payroll adjustment meetings with program office representatives. <input type="checkbox"/> Agreed not to request a temporary fix regarding "Stored" accounting data/string, SSN data load in the PPS, MASC Table, webTA, etc.
FY 2014 Planned Actions	<input type="checkbox"/> Continue payroll adjustment meetings. <input type="checkbox"/> Began process and procedures for WebTA (4.2) upgrade. <input type="checkbox"/> Complete and submit Software Change Request (SCR) for all updates and changes, etc.
Internal Controls over Financial Reporting	Improvements are needed in the area of Financial Reporting
FY 2013 Accomplishments	<input type="checkbox"/> Developed and implemented internal procedures to ensure amounts owed to HUD are properly accounted for, collected and reported. <input type="checkbox"/> Developed a methodology to calculate an appropriate estimate of anticipated amount owed to HUD to ensure an appropriate accounts receivable amount is accrued. <input type="checkbox"/> Developed an appropriate allowance for loss methodology and adjustment for receivables established to ensure that an appropriate accounts receivable amount is accrued for costs that have not been finalized.
FY 2014	<input type="checkbox"/> Update Debt collection Handbook. <input type="checkbox"/> Implement standardized financial management policies and procedures.

Other Information

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Planned Actions	
<i>Non Compliance with FFMIA</i>	HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system requirements.
FY 2013 Accomplishments	<input type="checkbox"/> Updated planned actions for each financial management system. <input type="checkbox"/> Analyzed FIFO in accordance with accounting principles, internal controls, and system requirements. <input type="checkbox"/> Completed analysis of IDIS assignments and disbursing budget fiscal year funding sources in accordance with Federal financial accounting standards. <input type="checkbox"/> Obtained opinion from GAO. <input type="checkbox"/> Developed a draft plan to eliminate FIFO with IDIS. <input type="checkbox"/> Implemented DRGR corrective actions to increase internal controls.
FY 2014 Planned Actions	<input type="checkbox"/> Update FMS plan throughout FY. <input type="checkbox"/> Continued collection of information for monitoring FMS development and operations. <input type="checkbox"/> Continuous monitoring. <input type="checkbox"/> Develop a budgetary accounting system in appropriate program offices. <input type="checkbox"/> Re-engineer IDIS from FIFO to Grant-Specific Commitments/Disbursement System. <input type="checkbox"/> Amend monitoring handbook exhibit referencing voucher revision reports and instructions for Grantees and field office staff.
Non Compliance with Anti-deficiency Act	HUD did not substantially comply with the Anti-deficiency Act
FY 2013 Accomplishments	<input type="checkbox"/> Completed backlog of old investigations, including six cited by OIG in prior audits.
FY 2014 Planned Actions	<input type="checkbox"/> Develop and/or strengthen internal controls related to contracts funded over multiple fiscal years based on results of ADA investigations. <input type="checkbox"/> Closeout the known ADA issues. <input type="checkbox"/> Review final reports to determine if reportable ADA violations have occurred.
Non Compliance with FHA's Mutual Mortgage Fund / National Affordable Housing Act of 1990	FHA's Mutual Mortgage Insurance fund capitalization was not maintained at a minimum capital ratio of two percent, which is required under the Cranston-Gonzalez national Affordable Housing Act of 1990
FY 2013 Accomplishments	<input type="checkbox"/> Initiated new underwriting standards. <input type="checkbox"/> Increased enforcement reviews and established a risk management protocol that will strengthen FHA. <input type="checkbox"/> Introduced new servicing rules that require early intervention and clear rule for both qualifying delinquent borrowers for home-retention assistance, and targeting the level of assistance to sustainable payment

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	ratios. <input type="checkbox"/> Increased the MMI Fund capital over 26 billion by FYE. <input type="checkbox"/> Increased annual premium charge by 10 basis points. <input type="checkbox"/> Contracted for second independent Actuarial assessment.
FY 2014 Planned Actions	<input type="checkbox"/> Continue to monitor economic conditions, business trends and actuarial assessments. <input type="checkbox"/> Initiate actions to strengthen the MMI fund. <input type="checkbox"/> Implement new underwriting standards.
Non Compliance with FISMA	HUD did not comply with the Federal Information Security Management Act (FISMA)
FY 2013 Accomplishments	<input type="checkbox"/> Updated Security policies and procedures to ensure compliance with NIST-800-53 Rev 3 guidance. <input type="checkbox"/> Developed a comprehensive enterprise-wide Cyber Security Continuous Monitoring Strategy program. <input type="checkbox"/> Implemented a configuration management baseline. <input type="checkbox"/> Refined the capital planning and investment control process to comply with Federal guidelines.
FY 2014 Planned Actions	<input type="checkbox"/> Update current policies and procedures to ensure compliance with NIST-800-53 Rev 4 guidance. <input type="checkbox"/> Ensure security plans and Certification and Accreditation plans are updated in accordance with NIST guidance. <input type="checkbox"/> Strengthen security awareness and training program and activities, as well as security assessments.
Non Compliance with HOME Statute	HUD was not in compliance with the HOME Investment Partnership Act (HOME Statute) Section 218 (g)
FY 2013 Accomplishments	<input type="checkbox"/> N/A
FY 2014 Planned Actions	<input type="checkbox"/> Change the methodology for determining compliance with HOME commitment deadline.

Secretary's Audit Resolution Report To Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2012, through September 30, 2013. It is required by Section 106 of the Inspector General Act Amendments (Public law 100-504), and provides information on the status of audit recommendations with management decisions, but no final action. The report also furnishes statistics for FY 2013 on the total number of audit reports and dollar value for both disallowed costs and for recommendations that funds be put to better use.

Audit Resolution Highlights

Overall the Department achieved 710 approved management decisions and successfully implemented 919 recommendations. The Department also made good progress in reducing its inventory of potential